

February 11, 2004

Ms. Angela Corbin
Centers for Medicare and Medicaid Services
Center for Medicaid and State Operations
Mail Stop S2-01-16, 7500 Security Boulevard,
Baltimore Maryland 21244-1850

Dear Ms. Corbin:

On January 16, 2004, CMS approved Michigan's HIFA Waiver that expanded health care coverage to many childless adults in the state. We are currently working together to move that forward through implementation and are now proposing a stand-alone amendment to the approved HIFA Waiver.

The content of this waiver amendment includes a modest Medicaid expansion through buy-in eligibility for parents under the poverty level and benefit reductions for non-disabled adults below age 65. We present this package reluctantly but have moved forward because it is our judgment that this is the best use of the state's limited resources available to fund the Medicaid program. We also are aware, and not surprised, that these proposed changes have generated resistance from the advocacy and provider communities and that you have received formal correspondence to that effect. Undoubtedly, there will be interaction regarding the objections that have been and will be raised.

As you know, Michigan is a state that has been severely affected by the downturn in the national economy. State revenues have plunged and policy makers have been faced with difficult choices in adopting next year's budget. In the face of these difficulties, Governor Granholm prioritized health care and increased funding for Medicaid in FY04 and FY05, but not to the level that enabled the Michigan Department of Community Health (MDCH) to fully fund all anticipated cost increases. Hence, we are faced with difficult choices but not to the extent that we would have been if Medicaid had shouldered its "fair share" of budget cuts compared to other state departments and agencies.

After an extensive effort to improve cost effectiveness and efficiency within the Department, there remained a budget shortfall for Medicaid. We considered all potential alternatives and had as a backdrop the knowledge that 1) Michigan's health care system is already under financial stress and 2) the Governor's priority was to protect the most vulnerable: the aged; the disabled; and children. So, we discarded across-the-board rate reductions because of concerns about their current adequacy. We did not want to eliminate eligibility groups because that simply increases the number of uninsured and places additional burden on the health care system in the form of uncompensated care (which is usually delivered in a less than rationale manner through

emergency rooms and other unnecessarily expensive forms). This left us with the alternative of creating a reduced benefit structure for those groups viewed as “less vulnerable”, essentially TANF adults. We prioritized essential ambulatory services and added as many services as could be funded within budgetary resources. That is the core of the attached HIFA waiver amendment.

This waiver amendment raises significant issues, some of which are anticipated below:

- We are aware that reducing mandatory benefits to mandatory populations is a very serious step from both state and federal perspectives. However, we make this proposal with the knowledge that other states (Utah and Oregon) have received approval for such reductions in the context of optimizing resources.
- We are aware that HIFA Waivers are generally used as a vehicle for expanding eligibility rather than reducing benefits. However, without this waiver and the ability to prioritize benefits for the target population, Michigan would have no alternative but to eliminate eligibility groups and increase the number of uninsured in the state. From that viewpoint, this waiver amendment accomplishes exactly what is intended through HIFA: keep the uninsured rate at the lowest level possible.
- Some will argue that the recent relief provided to states in the form of temporary FMAP increases should enable the state to avoid this step. The fact is that the tax relief dollars were completely absorbed by increases in Medicaid spending due to skyrocketing caseloads and other inflationary pressures beyond the state’s control. Further, that relief ends on June 30, 2004, creating an additional budgeting problem in the subsequent time period.

We look forward to working with you to achieve what we believe is a mutual goal, which is to provide the maximum health benefit to Michigan’s disadvantaged citizens through the Medicaid program. We believe that this waiver amendment is in accord with that goal and request your favorable action. If you have questions related to this amendment, please contact Steve Fitton at (517) 335-5178 or by e-mail at fittons@michigan.gov.

Sincerely,

Paul Reinhart, Director
Medical Services Administration

cc: Cheryl Austein-Casnoff
Cheryl Harris
Hye Sun Lee
Julie Greenway
Steve Fitton